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2005-01-01

Conference Report: Terrorism Financing & State Responses in Comparative Perspective; Strategic Insights, v. 6, issue 1 (January 2005)



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Terrorism Financing & State Responses in Comparative Perspective

Conference Report Monterey, CA, November 4-5, 2004

by [Jeanne Giraldo](#), [Harold Trinkunas](#), and [Barry Zellen](#)

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Conference co-organizer Harold Trinkunas welcomes panelists and attendees.

Introduction

The Naval Postgraduate School hosted a conference on *Terrorism Financing and State Responses in Comparative Perspective* in Monterey, California on November 4-5, 2004. The conference took stock of what has been learned about terrorist finances as well as various government responses as part of the continuing global war on terror. Over 90 participants spent the two days immersed in thoughtful discussion, and at times vigorous policy debate, of the varying methods by which states may respond to—and seek to mitigate the effects of—terrorist organizations using measures designed to disrupt their access to funds—including monitoring,

tracking, freezing, and regulating suspect funding, and closing off channels long used by terror organizations for the transfer of operational funds.

Panelists presented of a broad selection of policy ideas and shared their insights and critical analysis on this financial dimension of the global war on terror. Audience participation was encouraged through frequent question and answer periods, and the diverse selection of speakers from academia (with institutions such as NPS, the Monterey Institute, Stanford, Northeastern, American University, University of Pittsburgh, and University of Wollongong represented), and government (including the Department of Defense, Central Intelligence Agency, and Congressional Research Service), and including regional experts (representing Australia, Southeast Asia, South Asia, Africa, and Latin America) contributing a variety of perspectives. This variety of perspectives kept participants on their toes throughout the conference, as they became engaged by the conference's diverse viewpoints.



Panelist Surinder Rana and NPS instructor Izumi Wakugawa prepare for registration.

Day One—Thursday, November 4, 2004

Department of National Security Affairs Assistant Professor Harold Trinkunas—who co-organized the conference with colleague Jeanne Giraldo—welcomed participants to the conference, noting the great turnout and saying he was looking forward to participants' questions and comments. He explained an important goal of the conference was looking to the application, down the road, of the ideas discussed during the conference. Trinkunas recalled that when Jeanne Giraldo and he first started organizing this conference, it was three years after 9/11, and really time to take stock of what we know. He noted that a lot of what we know about terrorism predates 9/11, and added, That's part of what this project is about.

Trinkunas went on to explain there were three fundamental areas of inquiry we have as part of this project, around each of which there would be panelists presenting conference papers. First,

Terrorism Financing—how it's done, some of strengths of terrorist groups as they do this, and their inefficiencies; those are some of the questions we'd like to get at. Second, Governments—how do governments respond to this threat; why do some governments succeed, some fail—and how does this vary around the regions of the world. The third question, Trinkunas noted, and one of the hardest ones to deal with—is: how do we know what we know is true? This is true for all academic inquiries, but especially important when it comes to terrorism financing. There's a lot of the information available, but we aren't sure how good the data is. He added, that's one of the things we want to talk about in this conference. With that, he noted it was time for the first panel.

Panel I: Terrorism Financing—Methods & Organizational Dynamics

1. Jacob Shapiro, Stanford University—The Greedy Terrorist

Starting off the first panel was Stanford University graduate student and Organizational Learning Fellow at the Center for International Security and Cooperation Jacob Shapiro, who presented his paper titled *The Greedy Terrorist*, which talks about ways of thinking about terrorist organizations' finances—and why they are the way there are, and not sometimes what we think they are. To help set the scene he presented a quotation those nit-picks on expenditures as low as \$1,573 from Ayman Al-Zawahiri, second in command of al Qaeda. He follows that with a second quote, from a disillusioned Kashmiri separatist who was interviewed by Jessica Stern, who described his terror movement as akin to running a business using poor and illiterate boys—and who was disillusioned with the way he saw his leaders behaving in the jihad. According to Shapiro, current theoretical work out there makes several assumptions about terrorist groups—such as their ability to efficiently distribute funds, raise funds from variety of source, operate secretly/covertly, as a network of cells, and to keep things going. The literature also assumes cell members all agree on how to achieve their costs—something Shapiro questions, but pointed out there are well documented disagreements on strategy and tactics among terrorists, including whether to make peace with government. Shapiro identifies five sources of terror funds: direct contributions from individuals; intentional donations from charitable foundations; state sponsorship; profits from legitimate businesses; and profits from criminal enterprises.

In contrast to the assumptions underlying much of the literature, there is great variation in the commitment of members of terror organizations. Shapiro explained there is a natural adverse selection process with opportunities to participate in a dangerous and risky adventure drawing those most committed to participate in risky causes, and the result is along the trajectory of a terrorist's career progression one would expect commitment to shrink in the middle ranks. Shapiro's intuition is if members are recruited into the positions from a limited population, then the more committed people are placed in a more risky role, and the less committed people are placed in financial and logistical roles. This opens terror organizations up to risks associated with the moral hazard problem. Shapiro considers, what are the strategies leaders can use to deal with this to solve this moral hazard problem? One method is auditing, but Shapiro notes that the very act of auditing will create vulnerability, and a create paper trail that government can track. Shapiro also notes terror planners can provide funds on a need-to-have-basis and points out that this is how the embassy bombings were financed but adds this entails additional communication, and so there is a security cost. And a punishing strategy would depend on catching the agent, and the ability to punish but Shapiro notes it's sometimes hard for principles to catch what agents are doing and when they do, punishment is problematic since logisticians/financiers often operate in areas separate from where organizations have military power. Incentive-based contracts can also help solve the moral hazard problem. Another method is to screen out candidates/agents who seem uncommitted, using an ideological discussion. However, Shapiro observes that ideological purity may result in fewer capable people. Lastly, Shapiro notes terrorist leaders may encourage members of their financial networks to enter into 'trust-inducing relationships' like marriage, since these relationships will significantly raise the cost of shirking

Shapiro discusses ways governments may exploit the vulnerabilities of terrorist organizations and their financial networks. One method is to target communal links and the trust-inducing relationships that define a community, making such relationships riskier. If governments make it known to terrorists that we are going to surveil community and family ties, this will raise the perception of the cost of their strategy and take away the efficiency of their organizations. Another method is to freeze the funds of terrorist organizations—but Shapiro suggests governments should not publicize such efforts since agents can use this as an excuse to explain away missing funds; but if not publicized, the agent must then explain to the principle why funds were lost. And lastly, Shapiro discussed government efforts to boost economic development in areas that are home to terrorist fundraising activity, and thus create alternatives for members of terror financial networks. At the very least, this will increase the cost of terror principals, who will have to offer more competitive compensation than in a less developed region. But Shapiro advised, don't target areas which are substantial recruiting areas since this will create more noise behind which terror financing can be shielded. Shapiro explained there is a security/efficiency trade-off which governments can exploit—but added that countermeasures such as regional economic development may have unintended consequences.



Conference participants enjoy a lively coffee break between panels.

2. John Picarelli, American University—Transnational Crime and Corruption Center (TraCCC)

American University's John Picarelli took a look at the convergence and divergence of organized crime and terrorism in his paper, *Organized Crime and Terrorism*, which examined some of the linkages between these two groups, and the nexus where organized crime and terror overlap. Picarelli has found this nexus between organized crime and terrorism is more a transactional one, more market-based, and not actor-based reflecting an alignment of pragmatic short term interests but which do not suggest a more permanent long term alignment. As terrorists engage in crime, they provide authorities with another avenue for interdictions and intelligence collection. Terrorists engage in organized crime, first and foremost, for financial gain: Think of terror financing as a

portfolio, from which you can earn money from a variety of ways—charities, etc, and crime is just one other way.

Picarelli presented a table of all the criminal activities that terrorist groups have engaged in—narcotics smuggling, commodity smuggling, goods smuggling, migrant smuggling, trafficking in persons, extortion, kidnapping, intellectual property theft, counterfeiting, fraud, credit theft and armed robbery. Picarelli made some policy recommendations based on his findings—first among which is to increase the cost for entry, since these barriers to engaging in crime present an opportunity for governments for increasing risk, increasing cost to entry through the injection of risk. As well, governments should foster mistrust within and between organized crime and terrorist groups, and to use trust as a mechanism to leverage organized crime's cooperation, as older organized crime families have long ties to the very states that terrorists seek to overthrow. Criminal activity provides authorities with a potential tracking source for a terrorist cell's intentions—and while corruption is often said to be a cause of terror, Picarelli noted that it is also a tactic used by terrorist groups.

With regard to external alliances between terror groups and organized crime, Picarelli sees no long term connection—though there are outsourcing relationships that exist, albeit these are seen more in the arena of logistical crime as opposed to financial that come together for a transaction or series of actions and then go away. Picarelli highlighted two recommendations in particular: first, he advocated increased use of regional training, noting training is something that is becoming increasingly useful, or used to try to develop law enforcement capabilities around the world. But he added we need to think about it in terms of a regional context and make it more culturally or regionally specific. Second, Picarelli considered financial investigation units—or FIUs—which investigate money acquisition, movement and storage. He recommends that FIUs expand focus to criminal and non-traditional means of moving money and storing it, which are getting more creative, such as the use of auction houses, art, heirlooms which provide a mechanism for buying and selling by terrorists. Picarelli recommends a return to pre-9/11 attempts to construct an interagency working group between the intelligence, Department of Homeland Security, and law enforcement communities, and to expand this to include academic experts and private sector firms, adding he believes the academic community has something to offer—particularly since ethnographic researchers have the opportunity to embed themselves in these areas where the nexus is forming, and can thus provide a wealth of information to share with intelligence, homeland security. Picarelli also recommended increasing the role of the international community, especially that of World Customs Organization (WCO) and the Financial Action Task Force (FATF) on Money Laundering, with its 40 recommendations enunciated in 2003 as part of its global initiative to identify non-cooperative countries and territories (NCCTs) in the fight against money laundering. Picarelli added that corruption must be brought into the sphere of national security—not just as a cause for the nexus to form, but as a tactic and as such, anticorruption must be thought of more as a tool of homeland security.

3. Discussion and Question Period

Discussant Phil Williams, a professor at the University of Pittsburgh, presented his observations and comments on the presentations. After, there was a question period. One participant asked Picarelli to discuss the linkage between organized crime and terror and whether it was changing now? Picarelli replied, I think it's pretty tough to talk about change over time, as it's hard to get a good historical trace. But he speculated that there could be a radicalization of organized crime, and that within the organized crime side, there could be more radical ideologies adopted to be more sympathetic to terrorist groups. Another participant questioned Shapiro's recommendation that we shouldn't publicize freezing of funds, since one goal is deterring new entrants, and because of this, at one point there must be some thinking about when you publicize, and when you do not. Shapiro responded, Your first point is very well taken, adding I don't know how you would find out where to make that tradeoff, since the rate of seizures is not actually high enough—except immediately after 9/11 to deter entry. That participant also asked about

communal punishment, noting I would want to know—given Israeli efforts to try to get communities to pay for allowing various terrorist groups to continue to operate, I think that's been a strategy that for years has not produced what we would ordinarily call successes—why do you see this as a good strategy rather than one that will create more problems and benefit? Shapiro clarified, I am not insisting we make communal punishment, just that we make it known that we know these ties are there, adding that the Israelis have really infiltrated communities where trust is problematic, and as a result the cohesion of those groups has broken apart. Shapiro concluded, my recommendation is not making punishment, but making it known people are being watched and surveilled and doing so publicly. A participant asked Picarelli about the relationship of security and civil liberties, and how do you balance security and civil liberties, to which Picarelli replied it was not quite the probable cause level, and added such a balance is rational and noted in the counterterrorism realm, the topic of civil liberties is a very heated discussion, but that doesn't besmirch some traditional prosecutorial techniques.



Conference co-organizer Harold Trinkunas chats with panelists at conference dinner.

Panel II. Terrorist Organizations & Financing

Middle East and Islam expert Anne Marie Baylouney introduced the next panel, starting off with Victor Comras, an attorney and consultant on terror financing and sanctions who retired in 2001 from the State Department with the rank of Minister Counselor; and, in absentia, Loretta Napoleoni—for whom conference co-organizer Jeannie Giraldo read her paper. The role of discussant was fulfilled by Dorothy Denning.

1. Victor Comras—Al Qaeda Finances to Affiliated Groups

Comras started out by explaining that considerable mystery and intrigue still surrounded al Qaeda funding—though it's estimated by the CIA that there is \$30-40 million budget per year for al Qaeda, but we do not know what it needs or expends today, or from whom al Qaeda gets its

money. We're not even sure the CIA budget estimate comes close to al Qaeda's true budget, since may be talking about operational funds. He added the picture we got from al Qaeda was that it drew on multiple sources, and its disparate cells drew on whatever it could—and it's now having a difficult time raising funds, and that the old al Qaeda, the base, may be facing a funding shortage. But while al Qaeda may be having hard times raising money these days, Comras explained, I don't think there is any shortage of funds available to radical Islam, jihad itself as its pace of funding is accelerating and considerable sums of money are passing to guys like al Zawqari in Iraq, and for new training camps in the former Soviet Union, and Africa. Added Comras, the pace of funds to radical Islamic teaching centers has either stayed constant or increased and added there are many grounds where we are seeing more recruitment and new solicitation of funds.

Comras observed al Qaeda's reliance on charities has been put under close scrutiny, and many have been identified—and action has been taken against some of them. In many cases, a lot of what happened is the same individuals have opened new charities under new names, and remained under same umbrella like the World Muslim League and the International Islamic Relief Organization (IIRO) which is present in about 60 countries. Comras added that al Qaeda has taken full advantage of the lack of oversight of these charities, that donations remain anonymous, and some cases there are key operatives in key positions, and the result is a co-mingling of legitimate funds whose ultimate use to support al Qaeda activities can only be identified when those funds are transformed.

Comras believes there is good reason to also look at the international drug trade operating in Afghanistan and Pakistan, though how much of drug money reaches al Qaeda is uncertain—but some experts think al Qaeda's reliance on drug money has increased. He referred to Mirwais Yasini, who heads Afghanistan's Counter Narcotics Directorate, who believes the Taliban and its allies generated over \$150 million from drugs in 2003 and who sees a central linkage between the drug traffickers, Mullah Omar and Osama bin Laden. Since the 1998 Embassy bombings and again after 9/11, Comras observed that banks have increased their vigilance. But in Malaysia, Comras observed there is still a don't ask policy with which they hope to attract business from those areas more tightly regulated, and the government of the Philippines is still trying to unravel shell businesses used to fund JI by Sheikh Khalifah. He also noted two banking networks established by al Qaeda facilitators, including the Al Barakat and Al Talqwa. Comras observed that the fight against terrorism has benefited significantly from intelligence for sure and that based upon forensic banking investigations and suspicious transaction reports there have been steps taken in many countries to designate individuals—but in many cases little happens, such as assets being frozen, and only \$59 million associated with al Qaeda today has been frozen—most associated with Taliban. But to date, most countries have failed to take any action against tangible assets and only assets in bank accounts have been frozen, and many of the core facilitators are still able to access their businesses for income production. Indeed, the lists that the UN has is a very small percentage of the known al Qaeda world, and the list of UN producers is critical to the international action to freeze their assets and halt their transactions. If the individual or entity is not on the UN designated list, Comras explained that there's no domestic authority or obligation to act. Comras concluded that we also need to deal with the whole question of financing by charities, and by individuals and by the centers of recruitment, where the indoctrination process, the radical jihad philosophy is being taught—until we do this, we'll have a terribly difficult time stopping the financing of terrorism.

2. Loretta Napoleoni—Terrorist Financing in Europe (as read by Jeanne Giraldo)

NPS Professor Jeanne Giraldo read selections from Loretta Napoleoni's paper. Napoleoni is an Italian economist and author of *Terror Inc.* and, according to Giraldo, one of few people to have interviewed the Red Brigades, from which she learned how expensive it is to be a terrorist organization, as opposed to the cost of a single attack. She wrote that it cost from \$7-8 million per year for the Red Brigades to operate, and that would be equivalent to \$100 million today. Her

research in Europe led her to realize that European terror groups had ties to Middle Eastern armed organizations and this led her to a wider investigation of terror financing, and with her book *Terror Inc.* she became one of the few people working on this topic before 9/11. As in the past, terror financing in Iraq today suggests a strong connection remains between Europe and armed organizations in the Middle East, and today, the terror movement in Iraq activated a network of European cells and sleepers, which connected to new networks and leaders like al Zarqawi, the rising star of Islamist terror in Iraq. Napoleoni's paper argues the old continent is a new regional hotbed for Islamist terror in the West. And al Zarqawi is head of a network with its base in Europe.

The expansion of EU, Napoleoni added, makes Europe an attractive place to invest and to easily travel across borders to shift their funds, since there's really no one enforcing a travel ban within EU, or enforcing the shipping of funds from one country to another. As for purchasing fraudulent identity papers, it's substantially cheaper in the East. Napoleoni argued in her paper, the importance of Europe for terror financing has increased dramatically since 9/11. Napoleoni observes a post 9/11 migration of terrorist assets across the Atlantic to Europe. As Giraldo explained, Basically, al Qaeda closed its bank accounts in the U.S.—mostly—and invested in diamonds and shipped them offshore for two reasons: to shield them from counterterrorism efforts post-9/11, and because they were able to predict the fall in the amount of the dollar and wanted their assets in Europe. And in anticipation of the U.S. reaction to the attacks, such as a crackdown on shipping activities and, with the Patriot Act, which has been largely effective, there's been a crackdown on offshore banking, and stricter rules on know-your-customer led both criminal and terrorist activities to shift from the U.S. to places with more lax requirements. Now, terrorists are relying more on shipment of bulk cash, a rising trend in Europe, as terrorists and others using shipping containers to ship cash from one part of Europe to another, and paying for properties with cash.

In contrast to the U.S., which moved swiftly to close its security loopholes after 9/11, Napoleoni observed that European countries are much more reluctant to take on charities than the U.S. and see it as very legitimate activity, paying more attention to that than the potential involvement in terrorist diversion of funds from charities. This dichotomy suggests the potential for a coordination problem, since the U.S. can pass one law but the EU can only issue directives so it's easy for terrorists to take advantage of globalization, the lack of border restrictions in those parts of the EU with restrictions less tight, and the integration of the economies of East and West. However, since Madrid the EU has issued an action paper calling for better implementation of existing counter-terrorism legislations, and soon thereafter appointed an antiterrorism czar and agreed to a comprehensive package of measures to increase data sharing and speedup the use of biometric identification, and to expand the Container Security Initiative with the U.S. Department of Homeland Security.

3. Discussion and Question Period

Panel discussant Dorothy Denning, a professor in the Department of Defense Analysis and author of *Information Warfare & Security*, provided commentary on the two presentations, and found both papers were excellent, very informative. After Denning's discussion, a question and answer period followed. One participant asked Comras if there is centralized control over al Qaeda's budget? Comras replied, information suggests al Qaeda did originally have a financial committee high up in the base's structure but it was likely dismantled and now finances are now located more at local level. Another participant asked, How do we know what we know? Some sources say al Qaeda doesn't get much funding from drugs, other sources say they do. Comras replied, it all depends on the source's credibility, how it sits in our gut. But if we consider what we do know, he said significant amounts of drugs are produced in Afghanistan, in former Soviet Union areas like Chechnya, and other points east, and that al Qaeda is somewhere in this area and needs support, and that the Taliban needs this support—and maybe drawing upon these funds a very credible idea one has to take at face value. Can we prove that in a court of law? No, but because it is plausible, we have to assume that it's a possibility.

Phil Williams observed very conventional traditional diplomatic things are not working, are not stringent enough, as there are not enough states cooperating. Comras replied, I start off with the notion that we are doing certain things, and need to start worrying about doing better first. For instance, if you're not on the UN's designation list, there's no international cooperation so we need to focus on building that list. Right now, Comras noted, the level of international cooperation for dealing with terrorism is atrocious—and while the U.S. has done well bilaterally, there's been so little international cooperation at international community level. Shapiro noted Comras had started off his talk by noting one of reasons for the growth in activity has been increased funding to fundamentalist groups—yet not all such groups engage in jihadi behavior, and observed that even Hezbollah has modulated its level of violence over the years, and is more like a political party now. Shapiro wondered why do some groups engage in violence, since it's not inherent in Islamist philosophy? Comras replied that some percentage of donations got funneled into jihadism, so with regard to donors, it's not necessarily an intent, but when it became clear to donors this was occurring Comras said they did not change their patterns of giving—so while they did not intend to fund terror activities, but they nevertheless continued to provide funding knowing some of it would go to these purposes.

With regard to Napoleoni's contention of an al Qaeda capital outflow from the U.S. prior to 9/11, Giraldo noted she's not convinced we are seeing this shift from U.S. to Europe, as Europe has always been a hub, and you want to have your finances where you have your supercells. While a capital flow from the U.S. to Europe is plausible, she noted she has not seen evidence, and that this argument put forth by Napoleoni still needs more substantiation. Another participant asked about the risks of putting innocents on the cooperation list and noted this can be economically devastating, and Comras clarified that we only should designate those whom we suspect of being involved, adding that based on intelligence information—while this can be challenged in a court of law and won't stand evidentiary tests, that we still need to take this balance and we need to have a good, plausible, credible review of intelligence information in making a determination to freeze civil assets, as this is different from criminal proceedings. But even in the realm of terror, we still need to find the right balance.



Conference co-organizer Jeanne Giraldo chats with panelists Jessica Piombo and John Picarelli.

III. Terrorism Financing in Comparative Perspective

The chair of the afternoon panel, conference co-organizer and NPS lecturer Jeanne Giraldo, introduced the afternoon panel after lunch.

1A. John Lombardi, Department of Defense

First up was John Lombardi, who works in the Pentagon combating terrorism and who noted because of the sensitive nature of his work, he would be functioning under certain constraints, to ensure his paper's being properly vetted. The focus of his work is on the Tri-Border Area (TBA) in Latin America where the frontiers of Brazil, Argentina and Paraguay all meet, and which has figured heavily for last two decades as a nexus for drug traffickers and spies and even—in last decade—for terrorists. Lombardi explained our info comes down to a couple of cases, including the fact that the government of Paraguay is moving against a number of individuals affiliated with a number of Middle Eastern groups, and on top of this, he noted there is a lot of anecdotal information, but there remains a large gap when it comes to verifiable information.

The TBA is a nexus between two major points, and a drop off for air travel between those two points, and the region is economically important for legitimate business and illegitimate as well. According to the Brazilian government, \$12 billion is laundered through the TBA each year, and that's just on their side. According to estimates by the Commander of the U.S. Southern Command, James T. Hill, some \$50 to \$500 billion is laundered in the TBA, as the area is vibrant and alive with legitimate and specifically illegitimate businesses. Out of this has emerged a terrorism financing network, with several figures involved including merchant Assad Ahmad Barakat, who has been designated a key Hezbollah financier responsible for sending at least \$50 million to Hezbollah since 1995. Lombardi believes terrorism financing does happen there, and notes it's a permissive environment, with weak legislation on all sides of the border, poor law enforcement, non transparent financial institutions, poorly monitored borders beyond the checkpoints we had there, and easy access to illicit activities conducted by organized crime. Lombardi explained that the TBA provides us with indicators that we hope are able to be applied to other areas in Latin America and the Caribbean to identify that kind of activity, and as such is a good case for us despite the lack of really good verifiable information.

1B. Lieutenant David Sanchez, Analyst, U.S. Southern Command

After Lombardi spoke, his colleague and research partner Lieutenant David Sanchez, assigned to the U.S. Southern Command as an analyst and a 2003 graduate of NPS, presented. Sanchez has found that there's enough evidence to suggest the TBA is a strategic area in the global war on terrorism and that the TBA is a strategically important environment. Sanchez noted there are multilateral efforts to combat terrorism in the TBA, with the Organization of American States (OAS) and the Inter-American Committee Against Terrorism leading the charge to combat terrorism financing. But there are also challenges in multilateral organizations, as there is no way to compel states to act on their recommendations—so while we can talk about these things there is still no way to enforce their recommendations. Sanchez noted there's another sub-regional forum, the 3+1 made up of Argentina, Paraguay, Brazil and the U.S., which he described as an effective forum that concentrates governmental efforts on combating terrorism and terrorist financing in the TBA, but its most recent meeting was as far back as December 2003 when it concluded there isn't enough information to confirm operational activities are taking place in the TBA, though it is concerned with money laundering. Sanchez noted within the region, there are some national and bilateral efforts—but these vary considerably. Sanchez believes that we do have enough proof to conclude the TBA is a permissive environment but has found its countries are working to strengthen their regimes, but work needs to be done in a lot of areas. Sanchez added there is a lot more that we don't know than we know. For instance, we don't even know Hezbollah's annual budget—and as for its fundraising in the TBA, we know it's going on but, it's really impossible to

pinpoint how much money has been raised in the TBA. As well, we don't know the connection of people in the TBA to their parent organizations.

2. Jessica Piombo—Terrorist Financing and Government Response in East Africa

After Lombardi's and Sanchez's presentation on the TBA, Assistant Professor at NPS specializing in comparative and African politics, Jessica Piombo, spoke about terrorism financing in East Africa, a region that is home to some huge masses of land that starts in Sudan, and includes Eritrea, Ethiopia, Kenya, Uganda, Zanzibar, and Tanzania. Piombo noted that most of our counterterrorism thoughts are on Somalia, Eritrea, Sudan in the Horn region. Piombo notes a lot of changes we've seen in terrorism financing doesn't date from 9/11, since most East African changes happened after 1998—after the Embassy bombings forced a little more attention to the region than there had been. So a lot of what we see in terms of anti-money laundering legislation and renewed focus on borders happened after '98, and got boosted after 9/11 with the arrival of more aid. Piombo next discussed indigenous vs. transnational organizations, noting that transnational groups primarily involve al Qaeda in East Africa and in the West Africa region—which she will not be addressing in today's presentation—both Hezbollah and al Qaeda. Among the indigenous groups, Piombo noted there are very few designated foreign terrorist organizations (FTOs) in East Africa, with the only ones in northern Africa—the Armed Islamic Group (GIA) and the Salafist Group for Call and Conflict (GSPC), from Algeria. There are a couple of 'other terrorist group' designated organizations in Somalia, Uganda and Rwanda, like the Lords Resistance Army of Uganda, where there are a lot of ethnic, Islamic, and Christian terror organizations. But she added most indigenous organization don't make it on our watch list, as they haven't staged events of the scale that really grabbed our attention in the west.

As for their financing, Piombo noted most of these groups sort of engage in unsophisticated terrorism financing, since there are few banks, some small banks, and in Eritrea the banks don't even use computers. With cash economies, they rely a lot on Hawala-dar, the informal system with human couriers carrying cash, gold other goods across borders in these areas that are very porous. There is so much human traffic and transporting operatives up and down the coast, Piombo commented, we're talking—I don't want to use the word primitive when talking about Africa—but they are basic. She next discussed the role of charities, which serve largely Muslim populations, and when we're talking about the Islamic connection, it is very strong—and a lot of people are contributing to the charities, though whether they mean to be supporting terrorism, we're not sure of but regardless of their intent, once contributing to the charities, it is in the system. Adding to the mix, Piombo noted there are large Diaspora communities all over the world—largely because these have been unstable areas for decades. As for money laundering, Piombo noted that in terms of the traditional way we think of it, it is not a major factor as there is a low incidence of extensive formal banking systems.

As for transnational groups, Piombo noted that al Qaeda is the largest one -but despite its size, it is financed in the same way pretty much as the indigenous groups. She observed Osama bin Laden was active in setting up business contacts there and owns much of the cement industry there—and with these business ties bringing money back into the organization. She noted that no matter how much we try, there's no solid evidence of organized al Qaeda cells in any country other than Kenya in the region. Piombo noted this irony—that al Qaeda has operatives in one of the most stable states in the region—Kenya, and not Somalia—they're in Kenya! Piombo asked, Why does al Qaeda like East Africa? She observed that like the TBA, East Africa has porous borders, with overland trade from Sudan and large migratory populations, and also like the TBA, there's corruption, and it's very easy to operate there as a lot of regimes are founded on corruption. Plus there's easy access to the Middle East. Piombo considered, in closing, Why we don't see a better effort to enforce terrorism financing measures, and answered that within the region there is no law enforcement capacity, with Sudan in state of war, with nebulous control over its country. As well, she added it's not in leaders' interests to implement anti-money laundering regimes since this would hurt their own sources of income, and since most people use

informal banking systems, she believes that efforts to cut down on their ability to use the systems would cause mass riots, so they can not crack down on it.

3. Discussion and Question Period

The panel's discussant was Maria Jose Rasmussen, Associate Professor in the Department of National Security Affairs at NPS, who commented, I like that both papers challenge the conventional wisdom and their suggestion is in Africa, and maybe the TBA, or both, the existence of a haven is much more important than the amount of money they are making in the area. She provided three categories of comments: on form, substance and ancillary issues, and added that these authors need to be commended on their efforts to stick with the framework provided by the conference organizers.

A question period followed the presentations. Rafael Perl asked: From a policy perspective, how important are these areas in terms of raising money for terrorist groups, and do you see a trend, escalating or de-escalation? Sanchez responded to this question, replying that there is no indication the TBA is equivalent to other areas, or if al Qaeda is operational there—but rather the importance of the area is it's a permissive environment, and has the potential to become so much more, and as such, he said our policy recommendation is to increase bilateral assistance to help those nations help themselves. One participant asked about the spread of radical Islam in East Africa, and Piombo noted there are several variants on Islam in the region, and while the Saudis have gone down and tried to radicalize them, that these efforts are not working—as the Islamic communities are localized, insular and don't like people telling them what to do, and are thus not accepting the Saudi variant of Islam. Piombo noted that the war on terror is perceived to be America's problem, but not their problem in East Africa—since states in East Africa don't have the force protection, and don't even try to protect their borders from terrorist infiltration since their borders are porous. She noted how we got our first base in Africa, in 2002—putting boots on the ground again, which took us ten years after Somalia during which there were no boots on the ground, and that as a percentage of resources, our resource commitment to the region appears small—and because regions are so huge, we have to put significant resources in to have any impact in such vast geographies. When asked if she could make policy recommendations, what would they be, Piombo reflected that if she were advising the NSC for Africa terrorism financing, she said she would recommend pretty much more of the same, using U.S. aid to boost capacity in the region, and that she would emphasize more capacity building than anything else since you can't counter money laundering without police.



Panelists enjoy some fresh air and sunshine during a coffee break.

Day Two—Friday, November 5, 2004

Panel IV: Terrorism Financing—Sources and Transfers of Funding

The second day of the conference began with introductory remarks by panel chair, Surinder Rana, a Research Fellow at NPS who teaches courses on South Asia Security and is a former colonel in the Indian Army. He introduced two distinguished panel presenters, starting with Professor Phil Williams of the University of Pittsburgh.

1. Phil Williams—Follow Not Freeze: Terrorist Finances and Attack Warning Indicators

Williams explained by way of his background that I come to the terrorist issue by way of organized crime, and noted in his research at the Swedish Ministry of Defense, he couldn't find a nexus between terror and organized crime, and believes that most comments on this nexus have been really premature. He observed there's been a two-pronged strategy since 9/11, to identify, freeze and seize and following the money. Williams noted there are tradeoffs to consider, and that it's very clear that freezing stops funding, makes it difficult to recruit, train and get weapons—but it doesn't stop operations which are relatively cheap. But Williams explained there are problems with the freeze strategy, and that is freezing is not successful, since it prevents identifying the way transactions could provide indicators, and Williams thinks we should accept that attempts to freeze have failed and instead, encourage terrorists to be more reckless with the money. Another problem with the freeze strategy is that it has extended a flawed and incomplete regime, the Financial Action Task Force (FATF) regime—where success had been limited, as the FATF has not really done a good job since it was created by the G7 in 1989, though he acknowledged FATF has placed money laundering on the international agenda to a degree unimagined at the time of its creation.

Drawing upon complexity theory, Williams noted there is co-evolution, as we and the terrorists co-evolve together—and as a result they are very good at circumventing what we do, and if you take it as a kind of competition, one thing we do very often is push them onto a higher fitness peak and make them more sophisticated, all in response to our measures. Williams believes we should consider covert methods against the financiers, and that there should be some cases of disappearing financing. Williams closed his presentation with some recommendations, saying, Forget freeze—just follow the money! In terms of analytical tools, he noted we do need baseline patterns, and need to go from strategic warning to tactical warning and thus we've got to get down to another level of detail, and this means we need new combinations of expertise. And in the long term. Williams believes we need to think about transnational threats, and must retool the way we organize our intelligence and analysis, from the bottom on up, since we are still geared up for dealing with the U.S.S.R, looking for large, hierarchical bureaucratic threats. We therefore need to recognize networks, and the way the new threat is organized. Williams closed by again urging that we drop freeze, and emphasize the difficulty of tracking terrorist transactions and thus lull terrorists into a false sense of security.

2. Nikos Passas, Professor of Criminal Justice, Northeastern University—Sources of Terrorist Funds and Methods of Transfer: Key Debates

Next, Professor Nikos Passas—professor of criminal justice at Northeastern University with expertise in terrorist financing; white collar, organized, and transnational crime; and informal transfer of money—presented his paper. Passas explained this journey we are on together, exploring terror financing, is like the adventure of Christopher Columbus, who, as history records, didn't know where he was going, where he landed—and did it public funds. Passas noted his agreement with Williams' argument against freezing terror assets, saying, I agree with Phil, as the most important one is following the money and creating intelligence and not just seizing a few million, especially without knowing what the effects of those seizures are.

Further hampering things has been imprecise knowledge, cultural misunderstandings, and inadequate evidence. Passas noted terrorism is a law enforcement, military, socio-economic and political problem and as such we need to concentrate on not only short-term approaches but long term ones, and not only the supply side—such as who is helping terrorists, but also the demand side—such as those who are turning a blind eye. He added, if we are to get this right, Passas believes what is important is that we sort out precisely who are the enemies, and how they are organized.

Next, Passas considered how do they raise money and how do they move it? He added there is a huge disconnect between the multi-billion or -trillion dollar terrorism economy, and the few hundred thousands it takes to blow up a train. Or how it could be these guys awash in gold could not afford the \$500 it takes to help one of its operatives there get his wife a Caesarian-section in a proper hospital. This huge disconnect is worthy of consideration. As for the diamond theory, that al Qaeda is involved in rough conflict diamonds derived from the conflict in Western Africa, and in particular Sierra Leone, and then use these diamonds to store their value after 9/11; and that the Taliban used a 30-day period to move their assets out of the West, Passas said he looked at the evidence provided by intelligence people, the military and law enforcement, adding I wasted four months of my research life, and that there was nothing to the theory, and widespread belief otherwise has resulted in policies built on thin-air facts. In addition to his research on diamonds, Passas noted that Hawala was the other area we looked at—finding that yes, there was Hawala in Afghanistan, everyone used it there as it was the only institution that works there. But when you look at the way 9/11 was conducted, there was not Hawala in the 9/11 operations, but instead banks and ATMs were used. Passas also noted, there is the question of whether we can fight terrorists with money laundering techniques, and asked, would one of them have red-flagged the 9/11 operation? Zero. So, Passas wondered, what are these recommendations coming from, how could they be helpful?

Passas considered the way we approach charities, and when authorities took assets away the result was devastating good work, with much collateral damage, yet in the end leading to no criminal actions against these organizations. Passas believes this does not look good. Instead of focusing on infiltrating, devastating, decapitating, he believes we have to take a look to outreach, which can also be helpful without producing counterproductive effects for us. Passas also asked, What do you do when you have intelligence information about something, but nothing useful for a criminal charge? I think monitoring is the way to go, rather than grabbing the assets. In the end, Passas said it's all about winning the war on terror with legitimacy, since we can not win the war on terror without legitimate means used in this process—and that brings me to collaboration, adding that the sharing of information needs to be done on a real-time, need-to-know basis, domestically, nationally and internationally—or we're not going to go anywhere.

3. Discussion and Question Period

After Passas' presentation, Moyara Ruehsen, professor of economics and illicit markets at the Monterey Institute of International Studies, presented her comments as discussant, starting with Williams' papers, saying she liked it—and added, I love counter-intuitive conclusions, and I think your supporting evidence, not freezing those assets but following them to map out networks, is very compelling evidence, and you make the argument strongly. She also liked Passas' paper, noting you make the same message that Phil does: that what we're doing now is counter-productive, and if we take anything away from this conference, that's a useful lesson to be learned. In conclusion, she reiterated that on the whole, these were two very interesting papers. A question period followed during which there was feisty debate on the ethics, and practicalities of the freezing-assets vs. follow-the-money schools of thought in terms of counterterrorism.

Victor Comras referred to the debate over freezing or follow-up, noting freezing includes various things: there is freezing of assets, and freezing of transactions, stopping a transaction. He added, What you are suggesting is don't stop that transaction—but let it happen. But freezing of assets is more akin to punishment, taking asserts of supporters, and as such is a punitive action, and maybe only one available on the international scene. Comras wonders, maybe we need to do both? A participant (female) observed that prior to 1998, we were doing that with Osama bin Laden's assets, watching them, learning from them. Williams noted, one FBI guy explained it wasn't that we were asleep on the job; we couldn't get any sleep on the job and as such were so overstretched. As for freezing assets, Williams reiterated his argument that freezing certainly hasn't worked, noting only \$37 million in assets have been frozen since the first \$100 million was frozen in the first two months after 9/11—and that this is a pretty poor record. Passas next spoke, explaining I know there is a punitive process involved in the designation process, and that it is an executive decision made, but there's no transparency or due process on how we designate someone. He added, what happens when we realized we got nothing on them; how do we take them off the list? He said this illustrates the problems with counter productive policies. Comras responded, noting the Barakat case and its controversy, as the designation still stands at Treasury because they believe they have sufficient intelligence evidence to pack it up, even if there's not enough evidentiary evidence.



Conference organizers enjoy a relaxing evening with the panelists.

Panel V: Terrorism Financing in Asia

The chair of the fifth panel, Brigadier General (retired) Feroz Khan, a South Asian security expert on the NPS faculty and thirty year veteran of the Pakistan military with an expertise in nuclear weapons strategy, who introduced panelists Surinder Rana and John Broome.

1. Surinder Rana, Naval Postgraduate School—Terrorism Financing and Government Responses in South Asia—The Kashmir Region

Rana noted how Kashmir is one of most populated regions in the world, where terrorism, crime and political exploitation, everything kind of goes side by side. The Kashmir region is very significant, as it is in dispute between India and Pakistan, and as such it is very important to know the perceptions of both sides. However, Rana explained, I will not get into the politics of each side, but added that when you say terrorism financing in Kashmir, it is challenging to resolve: is it terrorism or some kind of freedom fight going on? What is this, terrorism or a freedom fight? Rana lived in that area for seven years and is very convinced it is terrorism and it's not a freedom fight. He added that terror is used as a tool of political violence, and since the British quit India, the Kashmir dispute has remained unsolved—and violence is prevailing. Rana explained that some of this violence is maintained by the political dynamics of this region.

Rana discussed the pattern of violence, methods of violence, and casualties that resulted, noting that from 1988-2004, the total killed—including terrorists, civilians and security forces—was 37,847, with 17,160 of those terrorists; 12,462 of those civilians; and 8,175 of those security personnel. And, he noted, 20% of terrorists are Kashmiris, while 80% are outsiders. Rana presented an ethnic breakdown of the data on casualties, noting that most of the casualties are Muslims, and from this he concluded that the freedom fighters are killing their own community. While state involvement has fluctuated over the years, Rana observed that now a peace process

is going on, and while it's not possible for the Pakistan government to take their hand out of this issue, currently their involvement is very low, and their sincerity toward the peace process going on is very high.

As for the methods of terror, these include bombings, extortion, heavy machine guns. And, added Rana, all this stuff is not produced in Kashmir, and to date, the India military has captured around 40,000 Kalashnikovs—yet Rana noted India does not produce Kalashnikovs, so they must be coming from outside Kashmir. Rana also considered the sources of terror financing, noting funds comes from charities, donations, foreign sympathizers, extortion, business and trade, drugs and bank robberies. Rana observes that just 10% of finances are raised inside Kashmir, while 90% comes from the outside. He added that within Kashmir, there are domestic sources: charities, relations (in the mosques), jihad and the Kashmir freedom movement, which collects money through donation boxes. Rana noted some terror organizations have established front businesses in the region, and more recently, terrorists have turned to the drug trade, which Rana described as a recent phenomenon, noting since 2003, large tracts in the valley have been used by terrorists and sympathizers to grow drugs and that is becoming one of the big sources of terrorist money in Kashmir.

Rana considered the sources of external support of terrorism in Kashmir, noting its main base is in Pakistan, but asking, who in Pakistan does this? He replied that over the years, support has come from the state apparatus, charities, foreign donors, coercion in name of jihad, business/trade, a criminal/terrorist nexus, drugs/weapons smuggling, counterfeit currency, and money laundering. However, Rana noted that since 9/11, Pakistan has been taking measures to reduce its role as a terror sponsor in Kashmir. Additionally, Rana noted that Saudi charities also give their money—as do Pakistani charities—as part of their religious obligation, and then how they use it is beyond their control, though upon donation most donors know it's very much for a larger kind of Islamic caliphate or wahadism. But not all money is freely donated, Rana observed, as coercion in name of jihad is common practice in the Kashmir Valley as well as in Pakistan, too, as religious fronts and political front organizations coerce people to support jihad.

Rana discussed methods of transferring money into Kashmir to fund terror operations, noting couriers physically carry most money used by Kashmiri terrorists across the Line of Control (LOC), but that banking instruments have also been used, as well as drug money. Plus, there has been known to be some misuse of official channels, such as the case of a Pakistan diplomat caught handing cash to some of these groups in Delhi in 1993, resulting in a series of diplomatic expulsions and causing a diplomatic row. Rana also observed the role of Hawala, or Hundi. Rana noted it's part of the culture. But because it is so ubiquitous, it can be used for legitimate and illicit purposes. But on the whole, Rana believes that 95% goes to legit purposes. Rana presented a slide depicting the government responses—by both India and Pakistan—who have both taken responses, which vary considerably, and include political, legislative, economic and military means. For evaluating responses, Rana pointed out, the basic thing is, all this terrorism financing is going on, and because Hawala is so central to the region's economy, most measures to curb terror financing are largely cosmetic, and aimed at a foreign audience. Rana noted there's a very thin line between politics, law enforcement, keeping efforts to a minimum, as so many politicians benefit from untraceable slush money generated through such informal systems of money transfer. And, because criminals and terrorists rely on this kind of money, Rana added that it's very, very difficult to counter some of these influences.

2. John Broome, Centre for Transnational Crime Prevention, University of Wollongong, Australia—Terrorism Financing and State Response in South East Asia

Next, John Broome, from the Centre for Transnational Crime Prevention in Wollongong, Australia, presented. Broome recalled that during the last four to five years, he's been working in Southeast Asia—working mainly on aid-funded projects to implement counterterrorism financing regimes in that part of the world. He's thus had a front row seat to money-laundering and terrorism related

issues, and based on his field experience, a major focus of my paper is where I see the need to look at new strategies and approaches.

Broome ran through some of the terror groups in the region, including Jemaah Islamiyah (JI), Moro Islamic Liberation Front (MILF), New People's Army (NPA), and Abu Sayeff Group (ASG). He noted that in the Philippines, the national pastime is kidnapping for ransom, adding that people fund campaigns by kidnapping their opponents, making it a serious issue. He recalled that Abu Sayeff had kidnapped a number of people from southern Malaysia, and the Libyans paid the \$25 million ransom. With payouts like that, you don't need to do it very often to sustain yourself for the long-term. Broome next discussed the government response to terrorism across the region, noting it has been very 'catchy' and while there's almost universal adherence to the international refrain of we must attack terrorism, and do it by focusing on its financing and move forward together, which they said for the last three years, but what governments have done has been actually quite different.

The Philippines, he observed, has several of the right themes and while there's been a bit concerted effort by a few to make the system work, there remain systemic barriers like government inertia, financial system disinterest, etc. As for Indonesia, whose politicians are rarely criticized by the U.S., and in reality—it is one of the few places to have prosecuted terrorists as it did after the bombings in Bali. Noting they were put under enormous international pressure, Indonesia used those special rules and they were encouraged to do so by the international community—but the trouble with these laws they used is that they made to cover the Bali circumstance after the fact, and even Indonesia's constitutional court said these were invalid. Broome noted the irony, that we encouraged Indonesia to adopt the rule of law, and when they did it, after the results from their constitutional court, they got criticized by Australia—which wanted justice. With Malaysia, Broome said, one of the worst things is to be told by others what to do, as Malaysia simply will not jump to someone else's tune, whereas other countries are more prepared to go along with the international consensus, though more often than not this is just language, while under the covers it keeps going on. Malaysia blends its strict detention laws, unwavering condemnation of terrorism, and punitive measures such as de-funding 500 Islamic schools found to be preaching anti-government sentiment and fostering militancy. Overall, Broome noted there have been mixed results in region. But that's partly because the biggest issue is not terrorism in Southeast Asia—as they've lived with these issues for years, so there's not the same type of national impact as in U.S. since 9/11. It's essentially a different part of the world, a different perspective. So people in the region don't necessarily see things from the same perspective when there is pressure to respond in the same way, and the issue is how well you can transfer this message.

Across region, Broome noted the 40 FATF recommendations are less a blueprint for success and instead have become an end to themselves, as you can follow all 40 and still not solve the problem. I do have a problem when FATF says terrorist financing is akin to money laundering, as they are getting it back to front, as money laundering is taking funds earned from criminal activity and trying to hide its origins, and thus legitimate it, whereas terror financing, by definition is the moving of legitimate funds to illegitimate purposes. So equating terror financing with money laundering is a bit like what Humpty Dumpty said to Alice in *Through the Looking Glass*, when he told her, a word means just what I choose it to mean. FATF tried to pick up the international mechanics in a shorthand fashion as an easy way of solving the problem, but the way things have turned out, what I think they have done is undermined their efforts—as governments are not paying attention to money laundering but instead doing what they were told to do—executing on FATF—and doing it very badly. And after 9/11, FATF issued 8 special recommendations, adding a ninth on October 22 of this year, which Broome believes reflects a failure of analysis which was the direct result of a desire to act immediately.' For instance, FATF special recommendation number 6 recommends that countries should take measure to ensure informal money transactions are licensed and registered, and subscribe to all FATF rules, and Broome points out that the result would be that Hawala networks would lose their efficiency and cost advantage, so

as a result, not a single one in the region has been licensed, and not a single will. Broome notes that most funds transferred through Hawala are legitimate, and since there's no banking system to sustain and as such Hawala is not even an underground, and not an alternative, but instead, it is the only system.

Another FATF special recommendation, number 9, recommends that countries should now have measures in place to detect physical cross border transportation of currency—and Broome said, again I ask, 'really?' as most people passing through international airports have some reporting system or other, and yet there limits are almost always \$10,000 U.S. or more, and in Europe are 15,000 euros, so you can travel back and forth with \$9,000 in your pack until the cows come home. and thus be able to fund a nice terrorist operation. And, added Broome, haven't they heard of the EU? There are no borders, so how will you declare money going from France to Germany ? Yet this is the kind of system that countries are getting pressure to join.

Regarding issues and problems to be dealt with more substantially, Broome said he doesn't think we will do much that is successful in tracing funding for terrorism, as there are fields and fields of haystacks, and in Southeast Asia financial institutions have no idea what they're supposed to be looking for, such as training staff who are supposed to be on front line and are supposed to find suspicious transactions. Banking officials are thus scared stiff that when money transfers through their institutions, governments will blame them. It's Broome's belief that Citibank is more likely to be used for terror financing, so we must get the banks involved as part of the solution, bring them into the tent, tell them what we know, encourage them to be part of the solution. Right now, if someone files a STR—or suspicious transaction reports—in Southeast Asia, there's a real possibility it will result in a vacancy in the bank manager's position, because that bank manager filed a STR! Indeed, since money is currency, Broome is confident that police would leak it, dooming any bank manager that cooperates with FATF rules. Broome also argues in his paper that legislation doesn't solve the problem, since no terrorist will stop—and say this is unlawful. As Broome reiterated, we must get the banks involved, as terrorists are evolving and changing, and we must evolve and change as well.

3. Discussion and Question Period

Panel discussant Brigadier General (ret.) Feroz Khan noted both papers presented represent a span across two distinct regions—South Asia and Southeast Asia—and while each of these contiguous regions is beset with tremendous problems and each has a long post colonial history of grievances and regional rivalries, they are also in so many ways so different: one is more islands, archipelagos and you can see this difference in modes of transfer. Yet both regions have porous borders making it easy to transfer funds across them.

In the case of South Asia, Kahn noted there is a danger here, in that it can sometimes be hard to differentiate between terrorism and regional disputes. He cited the words of former National Security advisor Zbigniew Brzezinski, who expressed concern that the U.S. global war on terror would be hijacked by others for their own agenda in a New York Times op/ed from September 1, 2002 (Confronting Anti-America Grievances.) As Brzezinski wrote, The rather narrow, almost one dimensional definition of the terrorist threat favored by the Bush Administration, poses the special risk that foreign powers will also seize upon the word 'terrorism' to promote their own agendas, as President Vladimir Putin of Russia, Prime Minister Ariel Sharon of Israel, Prime Minister Atal Bihari Vajpaae of India and President Jiang Zemin of China are doing... Hindu fanatics in India are also quite eager to conflate Islam in general with terrorism in Kashmir in particular.”

Khan is concerned that the subject becomes very difficult when there is a blurring of the distinction between the global war on terror and intractable regional disputes, and leads nowhere other than to simply understanding the complexity of South Asia. Khan believes that the non-resolution of festering local disputes in itself is a huge cause of instability and global concern, and added some of his own insights on the complex roots of the Kashmir conflict—noting that while

India and Pakistan are both partners in the global war on terror, their roles differ vastly, with very distinct historical experiences. For instance, Khan noted the rise of Hindu fundamentalism in India is largely an indigenous phenomenon, and it was not exported from outside, while the case of Islamic fundamentalism in Pakistan is a result of both internal changes and external circumstances: internally, the military coup led by Gen Zia-ul Haq in 1977 after an Islamist backed movement against the secular government of Z. A. Bhutto in the mid-seventies laid the foundation. But the rise of extremism and militancy in the region was externally driven, and the revolution in Iran and war against the Soviets in Afghanistan had a profound impact on Pakistani Society, and the Kashmir uprising in 1989, at this juncture, was just ripe for the demobilized Mujahideen, and changing internal dynamics in the region to be sucked in.

After Khan's presentation, a question period followed—during which Rana noted his paper did consider cultural and social issues, adding, I have given emphasis on that, and noting there are certain divisions, as people have their own belief systems which in turn pushes them to rely on certain procedures such as Hawala, which is a necessity in South Asia. As for the external influences on Kashmir, Rana articulated his belief that both sides have been involved—there are no clean hands, and that both sides have been involved in these kinds of activities—both India and Pakistan. He added that it goes both ways. Rana noted his appreciation of the comments, noting, some of these comments will definitely be incorporated into my paper and improved from that.

Broome spoke next, noting that in the Philippines, there are some 40,000 islands and anything moves across those islands, across to Borneo, Brunei, to Malaysia, and as a consequence, the systems we're used to thinking about controlling movements of people and money just don't work in Southeast Asia. As for cultural norms, Broome mentioned the fact that 7-8 million people work offshore, and send \$7-10 billion back to the Philippines, without which the country would sink back into the sea, and it keeps food in peoples' mouths—with around \$3 billion coming into the Philippines through unofficial channels. With Western Union charging \$14 for a \$100 wire transfer, and Hawala charging only a few percent, incredibly small amounts of money can be moved around the region with absolutely no financial institutions involved, so there's simply no discernible characteristic to identify when tracking terror funds, as they will look just like the other \$6 or 7 billion worth of transfers coming in. That's why Broome recommends, Let's stop thinking this is even a realistic strategy. He believes we can use intelligence much better than in the past—such as understanding each other's legal norms, something he believes is more important. He recalled when Australia police went to Bali to investigate the Bali bombing as criminal event, they were seeking evidentiary material suitable for Australian courts but not necessarily local ones. Broome believes we should be developing arrangements in the region, where people have those skills appear—for instance, to assemble evidence that meets jurisdictional evidentiary requirements. This is something more practical than finding patterns of financial transactions. Sorry, that's not going to happen.

Jake Shapiro asked about the casualty statistics presented by Rana, and observing that if 17,000 terrorists were killed and 12,000 civilians were killed, then if they were truly targeting civilians, they appear to be bad at it. Shapiro wanted to know if these 12,000 were mostly civilians killed in crossfire of intentional attacks on civilians. Rana explained to Shapiro that the 12,000 civilians were killed over 40 years, some from explosions in buses, ransom kidnappings, attacks against village defense committees, grenades thrown on security force's vehicles that missed and land in civilian markets. He added that only a small percentage got killed in crossfire, and that crossfire gets around 10% of the civilian casualties. Victor Comras asked Broome the place Southeast Asia sits in international terrorism, as the recipient of funds internationally, or a supplier of funds internationally or only as a regional financial issue. Broome replied there are a lot of groups like Abu Sayeff, typically self-funded, and there has also always been a crime/terrorism nexus, that's why JI, why al Qaeda are in Asia, not just Southeast Asia—and that 20% of al Qaeda's total membership is located in Asia. But how much is located in Pakistan, South Asia, and Southeast Asia is not clear. Broome noted there is a very large Islamic community which ranges in its views

from very moderate to extreme, adding that schools in Indonesia were used for the Bali bomber recruitment, and that there's evidence of people from the southern Philippines as well. But for how much of this we've got connections, and therefore a linkage, for another area to expand influence, Broome said we don't know, adding we don't even know how the money is getting around the region, let alone if it's heading out of the region, because so much moves informally throughout the region.



In between sessions, discussions continued over coffee.

Panel VI: U.S. Domestic and International Responses to Terrorist Financing

Jeff Larsen, founder and principal of the Larsen Consulting Group, chaired the afternoon panel on U.S. domestic and international responses to terror financing. He introduced panel members, and the first to present was Anne Clunan, Assistant Professor on the NPS faculty, who earned her doctorate from U.C. Berkeley.

1. Anne Clunan, Assistant Professor, Naval Postgraduate School—U.S. and International Responses to Terrorist Financing

Clunan explained that she would be taking an IR theory perspective, and ask three basic questions, including, is there a counter international terrorist financing scheme? Can it be enforced? She noted that the IR tradition posits that power is essential, and as such you need a hegemon to lead states to make any international regime effective. As to her first question, yes—there is in fact a counter terrorism finance regime, but what it really is a money laundering regime in different clothes. Consequently, there is a normative structure in place, emerging from the nascent anti money laundering regime, and this money laundering regime is a necessary but not a sufficient part of the effort to struggle against terrorism. Clunan noted a strategy to change the environment in which terrorists operate is not the solution, but has to be part of the solution. She added that the U.S. has led the effort after 9/11, and also before 9/11 when it was a counter-drug

and counter-money laundering effort. Were the U.S. not willing to underwrite or lead the regime, this would, from an IR theory perspective, be problematic for effectiveness of the regime. Clunan also noted the War in Iraq has had a tremendous impact, particularly the scandal at Abu Ghraib, which has had a negative impact on the cooperation of Middle Eastern states.

She recalled how in preceding presentations that we already heard a lot of these best practices aren't particularly effective as they are not targeted at terrorist financing, with UN resolutions 1267 passed in 1999 aimed at al Qaeda and the Taliban; and resolution 1373, which the UN passed after 9/11 which established an international mini-treaty requiring state action against all terrorist organizations and their associated. She noted Victor Comras talked about the 1267 committee, or as it is known, the al Qaeda/Taliban committee, and efforts to target terrorist financing before and particularly after 9/11—adding that Resolution 1373 was supposed to be that—and supposed to be the committee after 9/11 to get everyone onboard to create a counter-terrorist strategy as it legislated a mandate to freeze the assets of terrorists and broadly defined terrorists, not just al Qaeda and the Taliban. But she noted that the U.S. is not leading it, and not aggressively active in it, and this has really hampered the ability of that committee to become the focal point of any international regime to handle. Further, Clunan noted there remain problems of definitions, and noted the Russians are working with UN to create a new consolidated terror list, adding that there's still not a lot of agreement around the world on what is a terrorist, and what is an insurgent.

Clunan also recalled the Egmont Group's process for creating FIUs, and noted how after 9/11, it became very sexy for a state to create a financial intelligence unit, and from a small number of Egmont FIUs, the total as of June 23, 2004 had risen to 94 in just two years—and these have been useful for information sharing, though they have not shown to be a central part of the anti-money laundering scheme. And, so far, we have not seen a lot of results yet, and it's too early to see how effective they become. And, in the private sector, she noted that since 1999 the Welkspur Principles require companies to execute due diligence to make sure it does not facilitate money laundering and—after 9/11—terrorism financing. These informal international bodies have enjoyed substantial and important movement, but the U.S. has not supported the UN's Counter-Terrorism Committee and has been unwilling to underwrite a formal counter-terrorist financing regime. Clunan observed overall that what we see with regards to a regime is that there is really no core, and that the U.S. is not putting a lot of finances into it, apart from some bilateral assistance from the State Department side, but in total since 9/11 there's been only \$21 million spent, which is not a lot of money if you think about the amount of technical assistance that is needed worldwide to set up a counter-terrorism financing regime. She observed that \$136 million has been frozen—\$36 million inside the U.S., and that 100 countries have anti-money laundering legislation. As well, she noted 188 countries have the legal authority to freeze al Qaeda assets and Taliban assets; 170 countries can freeze terrorism assets in general; 117 states are now party to the terrorist financing convention, which was signed in 1999 but did not go into force until 2002. So, with all this activity, Clunan observed it looks like a lot happened—but looks can be deceiving, and it's been mostly adapting money laundering methods, and so far not a lot of implementation is in force.

Clunan asked, do states have the capacity to enforce the laws we're talking about? She added, Is it within a state's capacity—not just its bureaucratic ability—to communicate with each other, which is important to do, and also to demonstrate its political capacity to act? She noted how the banking industry prior to 9/11 refused to cooperate with such efforts, and in other countries. various domestic constituencies such as charities in Saudi Arabia, proved largely uncooperative.

Another thing, commented Clunan, is how tremendously complex it is to coordinate many different agencies within a country, as there are dozens, and this can be a tremendously complex problem which means states which don't have a lot of domestic capacity, which we call 'weak states,' are going to have an incredibly hard time. Indeed, even in best case, the U.S., we're having a hard time, and is lacking the domestic capacity to coordinate across agencies, which is something very critical that we do—and which we need extremely high level of priority to make

this happen, and to break down those walls, we need to change an organizational culture of government from 'need to know' to 'need to share.'

Clunan reiterated that the U.S. is the best case in terms of capacity, as it has lots of power, and the President can designate people under the terms of the PATRIOT ACT. She explained capacity is different from power, and that having capacity means dealing with bureaucratic battles, public interests, private interests. She observed that resources and priorities given to counterterrorism financing waxes and wanes with terrorist attacks, peaking after the attacks of 1993, 1998, 2001, with much better coordination in the U.S. since 9/11, but she noted there is concern that that willingness to act together is eroding over time as bureaucratic forces start to act again. In other countries, Clunan noted, Only the domestic experience of a terrorist attack is going to galvanize other states such as Pakistan, India and the Philippines to actually enforce anti-terrorism financing, and unfortunately only such a shock will galvanize a reactive reaction.

2. Raphael Perl, Congressional Research Service—9/11 Commission Report & Terror Financing: Implications for U.S. Policymakers

Raphael Perl, a specialist on international terrorism policy with the Congressional Research Service, noted that in the war on terror, the man with the money is just as dangerous as the man with the gun, but speculated that maybe to some degree the man carrying the anti-terrorism financing banner is wearing the emperor's new clothes. Perl wonders, where and how this money fits into the terrorist's equation—how important is it to the terrorists? And where and how the financing should fit into our equation, how important is it, and how important should it be? How do we de-compartmentalize the issue and better integrate it into policy? Perl said his presentation would briefly look at antiterrorism financing strategy, what it says—and more important what it doesn't say and then conclude by looking at where terrorism financing policy is going, or should be going, and at what policy issues the 9/11 commission raises—and promises. Perl broadly considers four questions that emerge in the wake of the 9/11 commission report's release: on what assumptions should policy be based; what should the goals and objectives of policy be; how does one measure success or failure of policy implementation; and what specific policy options may hold promise of success?

In 2003, anti-terrorism strategy was defined by the Bush Administration to include four pillars: defeating, denying, diminishing and defending. He added that these pillars include a pre-emptive network destabilizing strategy that emphasizes the need to attack terrorist groups and deny them support, and he notes a subset of that is to attack terrorist finances and deny financing support for terrorist groups—which is heavily oriented toward international law enforcement cooperation, and terrorism financing cooperation is an important part of this strategy.

Perl noted the 9/11 Commission Report made 41 recommendations—and that one deals with terrorism financing, advising that vigorous efforts to track terrorism financing must be maintained, and praises the success we've had gathering intelligence on terror operations and the success we had arresting key financiers. The 9/11 Commission thus presented a report card, and looks at what we've done—and where we've failed. If you look at the text you will see it suggests a redefining of our strategy goals away from our focus on seizing money to gathering intelligence and that three factors are important. He noted it can be like trying to catch one kind of fish by draining the ocean, and that terrorists seek informal mechanisms for transporting money, which makes it harder to track. He added that the U.S. government made little leeway deciphering al Qaeda funding channels, and that his observation is that as terrorist network become increasing decentralized, they become increasingly self-supporting.

This shatters the assumption that we can significantly decrease terrorism financing, and that this will reduce terrorist action, but after a period of time, policy begins to shift to incorporate new assumptions, and as such, I would suggest the commission report opens the door to a more holistic comprehensive approach to terror financing, within a broader context than just seizing

assets and to thus gain strategic or tactical intelligence; to foster international coalition building—which should be a primary objective; to reduce international crime, which should be a goal, and I disagree with Nikos [Passas] on that; to deterring individuals and organizations from financing terrorist causes; to disrupting organizations and forcing them to devote more time to logistical support than conducting operations; and lastly, to create legal tools to bring to bear on operations.

Perl discussed ways of measuring success, and noted he presents lots of them in my paper, but in his presentation, for the purpose of time, would focus on two, including the impact of policies on coalition building, and our policy options if we factor in the observations and recommendations of the 9/11 commission. With just seven minutes left in his presentation, Perl explained that increasingly, terrorist financing is compared to a hydra and if you cut one head off, two grow back, and to work against this, Perl believes that Congress, to develop a viable strategy, should focus not just on money but on the demand driving the money, and added we need to facilitate the channeling of contributions to non-jihadist causes. He added our job is to seek to identify organizations that are terrorist funded, those who give, and as well, we must identify those that aren't.

Perl believes we need to be careful not to let the pendulum swing in the other direction, such as to follow not freeze the money—and joked about how this parallels the swings in air temperature of the conference all, noting the morning was freezing, the afternoon boiling, while neither appeared effective to me. Perl took a pragmatic approach, to try to fix stuff, noting there's not enough effort on interdicting, and believes that even a small amount of funding interdicted can derail terrorist operations. Perl explained that it's important to recognize the limitations of policy to limit terrorism financing and while drying up funds can have an important impact on terror organizations' ability to recruit and operate, that it will do little to deter suicide bombers. Better that we have policies that restrict compensation to families of suicide bombers, as that could have an impact, or that restrict educational systems imbued with hatred and bigotry which can fuel terrorism. Perl believes that we need to work with people in the Islamic world willing to work with us here, and that we need to consider civil liberties. At the same time, he said I would suggest to you that it's not the avowed policy of our government to defend freedom abroad while restricting at home; but at same time, I think we have to be vigilant here.

In closing, Perl said I would suggest to you that the 9/11 report has created an environment open and conducive to the discussion of terrorism policy, and that many suggest the time is ripe for the Executive Branch to sit down with experts to re-evaluate where their effort to counter terrorism financing has gone, and should be going. He added, Our assumptions have turned upside down and we need to sit down and evaluate these things. He believes that conferences like this can provide important input and impact, and that in terms of terrorism financing, these are historic times. We are looking at our policy, reevaluating it, and because of this it is an ideal time for people at this conference to make a contribution.

3. LT COL Darryl Williams, StratCom, Omaha—JFHQ-IO Transformation Division

The final presentation of this panel and the conference was made by Lt. Darryl Williams, from StratCom. He discussed a new program called the Partnership To Defeat Terrorism (PTDT). Williams explained that terrorists don't have their own processes but instead overlay on other processes. He added that we realized very quickly in the Defense Department, at State, Treasury and a few other places—that we don't have the expertise, since most of these global processes that terrorists use are owned privately, so to penetrate them, the counter-terrorism community in government must develop trusted relationships with think tanks, academia, private business. PTDT convened a meeting of global process leaders—in November 2003 including the global leaders from energy, telecom, academia, government, and brought them together to start to look at the problem—and to develop a new paradigm.

PTDT thus decided to take lessons from the emergence of the U.S. Federal Reserve, that quasi-governmental entity that is independent of, but exists at the pleasure of, the U.S. government. PTDT thus aims to create what Williams described as a Federal Security Reserve System—a national board that doesn't fit under Homeland Security but instead looks globally. As part of the PTDT's plan of attack, Williams said the project will assess part public/private partnerships, and consider a regional-specific architecture similar to the FEMA model, noting that every region has a predominant industry that is global in nature, to take a lead in that particular strength. As well, Williams thinks PTDT will prove useful in counter-terror operations, since it can take unclassified analysis and bring it back, and see if it correlates with the chatter. PTDT will provide top strategic decision-makers with the only industry/academia information-sharing partnership that looks at all areas of national power, and will provide StratCom with unprecedented access to global industry and academia leaders, and once we get the chatter to them, Williams expects that we will get information going.

4. Discussion and Question Period

Panel discussant David Mares, a professor of political science from the University of California, San Diego and adjunct professor at the Graduate School of International Relations and Pacific Studies, started off by observing, I really enjoyed that last presentation as it sounds fascinating and encouraging after everything we heard the last couple of days. He added, I enjoyed both of these papers presented prior to Darryl Williams' presentation, and learned a lot from both of these papers.

A question period followed. One participant asked Perl, were you advocating an international list of approved charities? Perl noted it's very difficult for governments to do that, as there are a lot of legal problems there—but I do think it is possible to work with the Islamic community to come up with a list they recommend, or maybe a vetting process, or a transparency policy—though he noted charities don't like transparency since a lot of money doesn't go to the charity, such as an expensive lunch or company car. He added that we hypothetically could get the Saudi government to say their list of favorite charities. Phil Williams asked Perl about his three measure of success, and Perl replied one measure of success is: could this be achieved somehow at a lesser cost, and another measure of success is the impact on terrorism recruitment, as recruitment is very, very important and is a very important indicator. Perl believes that a model to measure this could be developed—and this could be an effective measurement of success in the war on terror. He added that we need to figure out a way to measure that momentum and to measure, is our public getting fired up? He added that we must given them realistic expectations. Another attendee asked Perl to address state terrorism, noting they had heard some contradictory opinions of state sponsorship of terrorism and wondering if there was any real data of state sponsorship? Perl reflected, if you encourage incitement, and facilitate incitement, is that sponsorship of terrorism? I tend to think it is. But, he added, in terms of looking the other way, he observed then clearly countries like Syria, Saudi Arabia, Iran could be doing more to prevent terror activities.

Another participant observed, :since the day it was created, I've been wondering whether the Department of Homeland Security was a help or hindrance in the war on terror, noting I've worked with parts of the Department of Homeland Security on border stuff, and all I see are ramped up internal squabbles that are diverting resources away from homeland security. The participant next asked, What can we learn about the reorganization of national security with the creation of DoD after World War II? Darryl Williams responded, noting it's going to take years before it is fully developed, and whether we've learned our lesson, he said, No, look at testimony on creating counter terrorism financing. When it comes to sharing information among U.S. agencies, the feeling in the U.S. government is that anytime you bring in private industry, you open yourself up to legal problems, and so forth, so the tendency is to feel like a leper colony. He added that there's this mentality on both sides to isolate, and until legislation is crafted smartly, until the populace is educated on what's going to be done—it's going to be tough. Perl responded

that the Department of Energy could also be an interesting model, and added that every organization has a startup time, and based on past experience with newly emerging agencies, at best DHS can be fully operational in 3-5 years—but until then, it will be like a Kabuki dance—with people bumping into each other. He added, My feeling with 9/11 Commission is that it focused on organizational failures but in actual fact, I see a lot of personnel or individual failures—and one of the potential problems with organizations like DHS is that they may not get the best people in the leadership positions, since the best people might be staying in the other agencies and not going over to DHS unless assigned to leadership positions, and this is one caveat that could have a big impact on DHS in the future, and until we know how it works out in our own country, we should be cautious and not too push too hard on other countries.

Panel VII: Author's Roundtable and Policy Recommendations

At the end of the question period, panel chair Jeff Larsen thanked the panelists, the discussant and the participants for their contributions to the discussion. Conference co-organizer Harold Trinkunas announced that an Author Panel would follow—and that after taking potshots at each other the last couple of days it was now their turn to take potshots at project organizer. The panelists who had presented papers remained in the conference hall after the other participants departed, where they discussed the forthcoming book on counter-terrorism financing. Trinkunas re-introduced the chair of the last panel, Jeff Larsen, principal of Larsen Consulting Group, who will be serving as managing editor of the book, who discussed his role, and the editing guidelines, schedule and process he would be following. After Larsen's presentation of editorial guidelines and processes to the authors, and the author brainstorming session, Trinkunas closed by thanking the participants, adding, "You made us all look really good."